



**CONNECTICUT
ASSOCIATION
of NONPROFITS**

*...to serve, strengthen
and support Connecticut's
nonprofit community.*

COMMERCE COMMITTEE TESTIMONY

March 16, 2010

H. B. No. 5498 (RAISED) AN ACT CONCERNING MICRO BUSINESSES.

S. B. No. 22 AN ACT CONCERNING SMALL BUSINESS ASSISTANCE.

**S. B. No. 23 AN ACT ESTABLISHING A QUALIFIED SMALL BUSINESS JOB
CREATION TAX CREDIT.**

**S. B. No. 450 (RAISED) AN ACT ESTABLISHING A REVOLVING LOAN FUND FOR
SMALL BUSINESSES**

Senator LeBeau, Representative Berger and members of the Commerce Committee, I am Ron Cretaro, Executive Director of Connecticut Association of Nonprofits (CT Nonprofits). We are the largest membership organization in Connecticut dedicated exclusively to working with nonprofits in Connecticut. Our membership numbers more than 500 organizations, 300 of which are health and human service purchase of service contractors with the State of Connecticut. Others members, including arts and culture, agricultural, environmental, economic development and educational organizations also hold contracts with Connecticut state government.

I am here today to support **H.B. 5498, An Act Concerning Micro Businesses**, especially Section 4, which makes nonprofits eligible for loans. I am also here to ask you to amend appropriate sections of SB 22, SB 23, and SB 450 to include nonprofit organizations in the definition of small business; to make nonprofits eligible to participate; and to regard them as respected contributors to our State's economy.

According to the Connecticut State Labor Department data: Nonprofit employment represents approximately 11% of all Connecticut employment:

2008: 185,677 (approximately 4% increase)

2007: 180,654

**Total nonprofit wages paid: 2008: \$8.7 billion
2007: \$8.1 billion**

(Note: This above data does not separate 501(c)(3)charitable nonprofits from other 501(c) nonprofits.) Over 85% of all nonprofit employment and wages are in two categories defined by the Labor Department: a) Health Care & Social Assistance (includes hospitals) b) educational services (includes colleges & universities).

According to the National Center For Charitable Statistics for 2008, there are **12,334 nonprofits or public charities in Connecticut**. and an additional 2,051 private foundations, which are also charitable nonprofits. Those 12,324 have a total revenue of \$26.7 billion and total assets of \$75.7

billion. There are an additional 5,960 other 501(c) nonprofits in Connecticut which are not charitable. (civic leagues, labor organizations, chambers of commerce, veterans organizations, cemeteries, credit unions, social and recreational clubs, etc.). Of the 12,334 number, 7,175 organizations have gross receipts of \$25,000 or more and must report annually to the Internal Revenue Service.

Over 93 percent of nonprofits have an annual income of \$1 million or less, and nearly 75% of all charities have annual expenses of less than \$500,000. (Source: The Urban Institute, National Center for Charitable Statistics, Nonprofit Almanac 2008).

Further, nonprofits have too few alternatives when it comes to accessing capital and credit. What is particularly missing is a vehicle to provide loan guarantees when the State of Connecticut fails to execute a contract or pay a provider on time. In 2009, a survey of our membership revealed that 42% of respondents had received late payments from the state, with some upwards of 60 days late. Late payments by the state create a cash flow problem for nonprofits that ultimately lead to one of two actions: use money from budget reserves and lose out on valuable interest that those funds would otherwise accrue in the bank, or access a credit line from a bank and pay interest on those funds. Both actions are a direct result of the state not paying a provider on time for contracted services.

For information purposes, there are approximately 700 individual organizations which contract with Connecticut State Government for health and human services. The cumulative amount of those contracts approaches \$1.3 billion.

I wish to be clear. There are opportunities available in some communities for nonprofits to access revolving loans for cash flow that are provided through nonprofit financial entities such as the Hartford Economic Development Corporation or the New Haven Community Loan Fund. However, this access does not exist evenly in all parts of the state, except through commercial entities. Unfortunately, banks have tightened their lines of credit and are less likely to provide a loan if they are unsure that the state will ultimately pay on the contract – as is the case both with late payments and the current threats of cuts and rescissions due to the budget deficit. That is why some form of loan guarantee would be of invaluable assistance to nonprofits. We are critical partners with the state in the delivery of health and human services and help the state accomplish its mission of serving the people of Connecticut. We hope that the state will support us in these efforts.

We would appreciate your assistance in addressing this issue.

Additional Points about the Role of Nonprofits as Employers

- Connecticut's charitable nonprofits and their employees are on the front lines of helping Americans when they are sick or hungry or poor and disadvantaged; conducting research to prevent and cure disease; offering opportunity through education; protecting our environment; and enriching our lives through the arts, faith, and other programs, many of which lessen the burdens of government.
- Longstanding federal policy extends tax-exempt status to organizations that dedicate and restrict themselves to these activities that serve the public good. In addition, these organizations must return all surplus revenues to their missions, and not to the benefit of individuals or shareholders, and must provide extensive public disclosure of their financials and other activities.
- While required to return surpluses to their missions rather than pay income taxes, nonprofit organizations do pay payroll taxes as employers and unrelated business income taxes.
- Small nonprofit employers have the same limitations and disadvantages as their for-profit counterparts, and would be placed at a disadvantage in competition for employees if they are not treated equally in incentives.

Nonprofits add real value to local communities and individual lives providing valued benefits to Americans everyday, including:

- *Entering the World:* community hospitals, health clinics, home health aides
- *Nurturing the Young:* after-school care, youth development programs
- *Lifelong Learning:* nonprofit preschools and kindergartens to elementary through post-secondary
- *Feeding the Body:* food banks, meals on wheels, soup kitchens
- *Fueling the Mind:* arts and culture, public radio, literacy groups, libraries
- *Earning a Living:* workforce development, credit counseling, child care
- *Healing the Body:* blood banks, clinics, substance abuse centers, disease eradication
- *Protecting the Body:* domestic violence centers, elder care, public health campaigns
- *Sheltering the Body:* homeless shelters, affordable housing developers, assisted living
- *Exercising the Body:* youth sports, summer camps, sports clubs
- *Nurturing the Spirit:* places of worship, service organizations, volunteer centers
- *Departing the World:* hospices, organ donation organizations

Federal Small Business Tax Credit and Nonprofits:

President Obama recently announced details of the small business tax credit that he proposed in his State of the Union address. Fortunately, unlike the White House's first enunciation of its national health insurance reform, this proposal included nonprofits as potential targets. The message is that nonprofits are employers too.

The plan is to give small businesses a \$5,000 tax credit for each new worker hired in 2010. Employers would also get a credit for raising their payroll either through wage increases or increased hours, equivalent to offsetting the increase in their required Social Security tax contributions. Nonprofits would be able to participate by taking the tax credit against their quarterly withholding payments.

If nonprofits are able to hire new workers, the credit will work for them. The White House is motivated partly by the news of a 5.7 percent increase in the nation's GDP in the fourth quarter of 2009, without a corresponding increase in hiring. Employers may be investing in equipment and inventory (or not cutting inventory as quickly as before), but they are still skittish about hiring. A tax credit might incentivize employers to start employing. Maybe it might be the reverse for nonprofits: the availability of a credit for their grantees might stimulate foundations to up their grantmaking.

From this proposal nonprofits would not only get a useful subsidy, but they even get to take the credit quarterly, if they pay withholding on an estimated basis, easing ever-present cash flow problems that will only be tougher with increased personnel costs.

Reminder, 501(c)(3) nonprofits pay the employer's match of an employee's Social Security taxes, called FICA, just like for-profit employers do. Employers file Form 941 with the Internal Revenue Service quarterly identifying the number of workers they employ and their "taxable Social Security wages"—and their taxable Medicare wages too. The Form requires employers to send the IRS 6.2 percent of the employee's wages as the employee's contribution to Social Security and to match that with 6.2 percent contributed by the employer. That is a real cost to nonprofits that the proposed credit would help defray. Unlike other employers, 501(c)(3)s are exempt from withholding and paying federal unemployment taxes, the so-called FUTA contribution, but other 501(c)s are required to pay FUTA.]